



**City of Boulder**  
Finance Department

TO: The Mayor and Members of City Council  
Jane S. Brautigam, City Manager

FROM: Cheryl Pattelli, CFO

SUBJECT: Investment Performance as of June 30, 2017

DATE: July 13, 2017

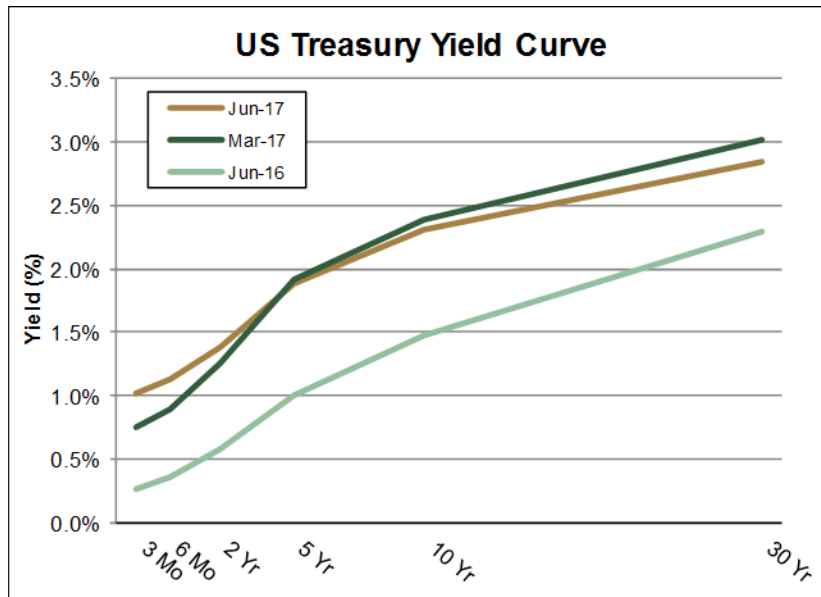
**Section 1 – Background**

- This report is for City Council information only and requires no action by City Council.
- The investment of City funds is guided by and this report is submitted in compliance with the City's Investment Ordinance. (Chapter 2-10, *Investment of City Funds*, Boulder Revised Code 1981).
- The investment objectives as specified in the Ordinance, are:
  - The primary objective is preservation and protection of capital. This objective reduces the risk to which the portfolio can be subjected. To comply with this objective, investments are diversified by type and maturity horizons.
  - The second objective is to maintain adequate liquidity to meet the daily cash needs of the City. The City's ordinance requires that 5% of the portfolio matures within 30 days.
  - Yield is the third objective. The City strives to maximize return, while minimizing the risks of the market.

## Section 2 – The Yield Curve and Federal Open Market Committee (“the Fed”)

### Treasury Yield Curve

06/30/2017 vs. 03/31/2017 vs. 06/30/16



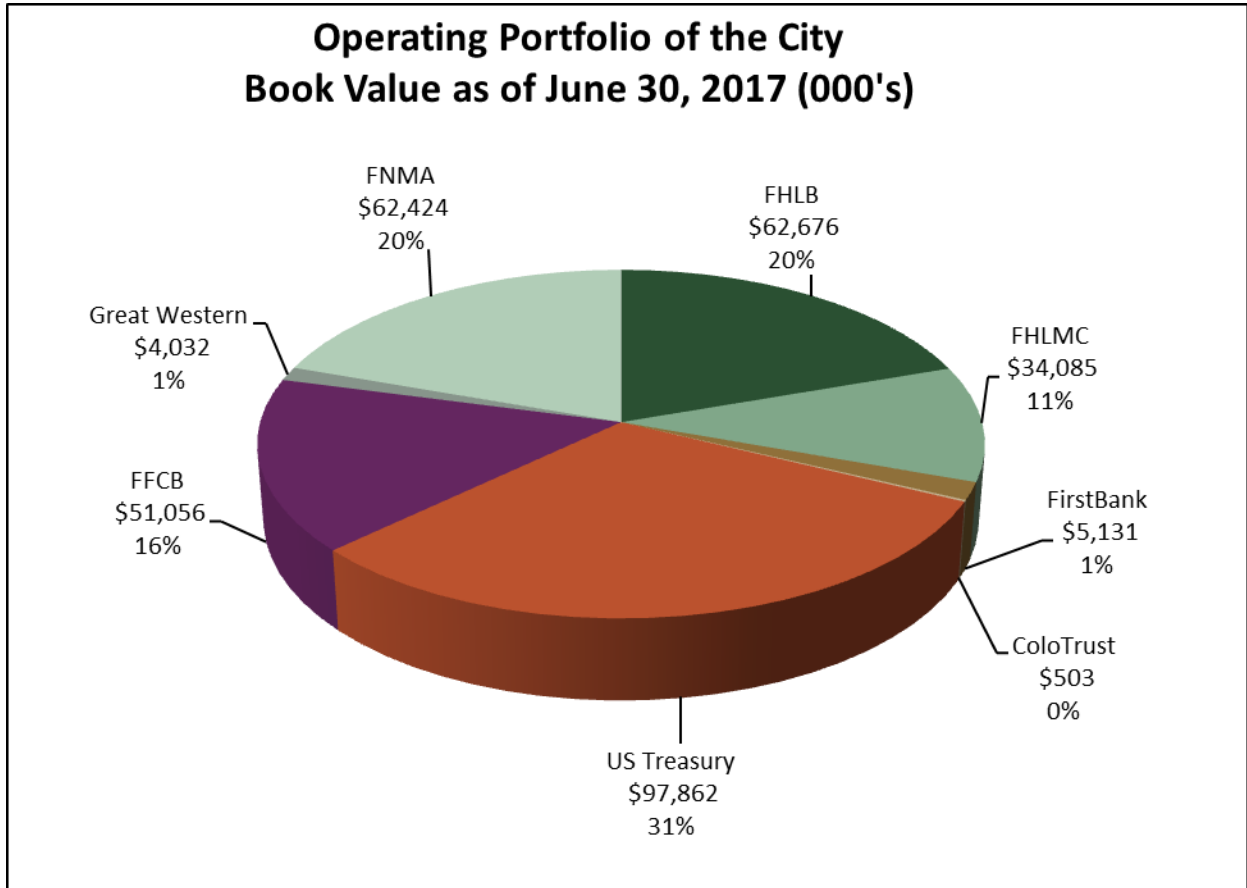
Source: Bloomberg

- Over the past three months, the yield curve flattened, The spread between 2-year and 10-year Treasury yields narrowed to 92 basis points as of June 30, compared to 114 basis points on March 31. In the three months ending in June, the 2-year Treasury yield increased nearly 13 basis points while the 10-year Treasury yield decreased eight basis points. Immediately following the US Presidential election last fall, the Treasury yield curve steepened meaningfully, driven by heightened expectations for fiscal stimulus and economic growth under the Trump administration. However, as the post-election exuberance started to wane earlier this year, the yield curve flattened. Since the election, the 2-year Treasury yield is up about 60 basis points and the 10-year Treasury yield is up about 50 basis points.
- The Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 1.00%-1.25% at the June 13-14 meeting. However, the FOMC statement indicated that the stance of monetary policy remains accommodative. The FOMC also noted that economic activity has been rising moderately and job gains have been solid, but inflation has recently declined. Nevertheless, the FOMC expects inflation to stabilize around 2.0% over the medium term. The Committee expects to begin trimming the Fed’s balance sheet later this year. The Fed’s updated Summary of Economic Projections reflects downward revision to the Fed’s median unemployment rate projections for this year and future years, as well as a downward revision to the Fed’s median 2017 inflation forecast. The updated projections suggest that the Fed anticipates the labor market to tighten further over the coming years without much impact on inflation. The Fed still expects the fed funds rate to reach 1.4% by the end of this year (which implies one more rate hike before year-end) and 3.0% over the longer run.

### **Section 3 – The City’s Portfolios**

- Portfolio strategies implemented this quarter and all investments held in the portfolio comply with the City’s investment objectives and the Ordinance that specifies allowable investments:
  - The objective of safety is achieved through a well-diversified portfolio, primarily among two major sectors (Treasury and Agency), the Agency issuers and various maturities along the yield curve. Market risk is managed by maintaining a low weighted average maturity (WAM) in the City’s portfolio. As of June 30, 2017 the WAM was 1.81 years while the Ordinance allows up to a five year WAM.
  - The City maintains sufficient liquidity. As of June 30, 2017, 5.5% of the portfolio or \$17.54 million will mature over the next 30 days.
  - As of June 30, 2017, the yield on the pooled investment portfolio was 1.37%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 1.28%, as of June 30, 2017. The objective was exceeded by 0.09%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- The City’s investment adviser purchased approximately \$44.48 million of securities during Q2 2017 for the City of Boulder’s investment portfolio. The proceeds of \$25.04 million of sales and maturities along with additional cash contributions were used to fund these purchases. Purchases included Treasury and Agency securities maturing between June 2017 and April 2022. The Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 1.00%-1.25% at the June 13-14 meeting. US GDP grew by 1.4% in the Q1 2017, following growth of 2.1% in Q4 2016. The economic data remains indicative of slow growth as it is likely at or near full employment. Consumer confidence remains strong, manufacturing indicators are indicative of modest expansion, and housing trends remain favorable. We expect modest economic growth of approximately 2.0%-2.5% for the full year 2017. The Treasury yield curve flattened during the quarter as rates on the short maturities increased and on longer maturities decreased resulting from an easing of inflation expectations. On a year-over year basis, Treasury yields have increased meaningfully, with the 2-year Treasury yield up 80 basis points to 1.38% and the 10- year Treasury yield up 83 basis points to 2.30%. The Federal Reserve has raised the fed funds target rate by 25 basis points three times in the past year. The recent move higher in domestic yields occurred late in June, coinciding with hawkish comments from ECB President Draghi. We continue to position the portfolio to take advantage of higher rates as the Federal Reserve continues to adjust its policy for the current economic environment.

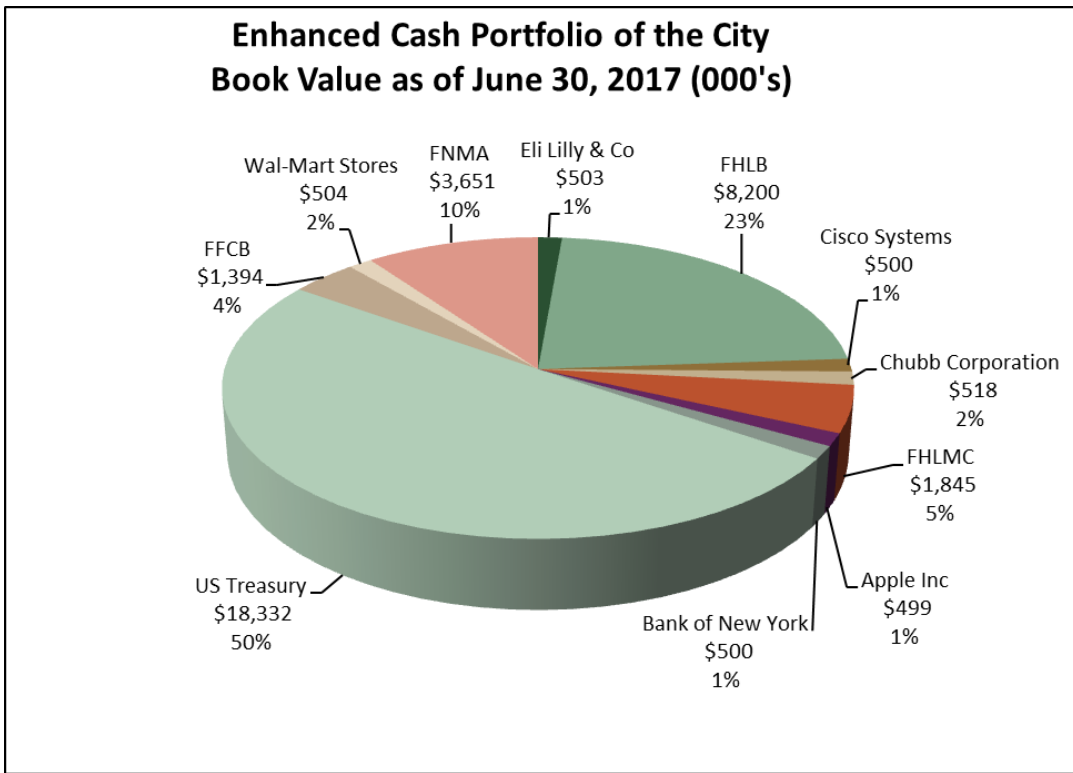
**Operating Portfolio of the City**



**Portfolio Characteristics  
City of Boulder Consolidated Non CIP**

	<b>06/30/2017</b>	<b>03/31/2017</b>
	<b>Portfolio</b>	<b>Portfolio</b>
Average Maturity (yrs)	1.81	1.75
Modified Duration	1.76	1.70
Average Purchase Yield	1.21%	1.15%
Average Market Yield	1.37%	1.25%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	318,055,862	307,788,835

## Enhanced Cash Portfolio



### **Portfolio Characteristics City of Boulder Enhanced Cash Portfolio**

	<b>06/30/2017</b>	<b>03/31/2017</b>
	<b>Portfolio</b>	<b>Portfolio</b>
Average Maturity (yrs)	0.74	
Modified Duration	0.73	
Average Purchase Yield	1.20%	0.00%
Average Market Yield	1.24%	0.00%
Average Quality	AA+/Aaa	NR/Aaa
Total Market Value	36,501,275	

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of \$36.5 million as of June 30, 2017 was invested as shown above in the graph and table to assure timely funding for the projected draw down schedule.

- In June 2012, the investment committee selected the one year Treasury as the benchmark for the bond proceeds based upon an average maturity of approximately one year for the portfolio at that time. As of June 30, 2017 the portfolio yield was 1.24%.
- As of June 30, 2017, 12.32% of the portfolio or \$4.5 million will mature over the next 30 days.
- The average maturity of the portfolio was 270 days as of June 30, 2017. This portfolio structure safely supports the liabilities of the projected project cash flows.